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Montana's GO Rating Raised To 'AA' On Improved Finances And Reserves

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SAN FRANCISCO (Standard & Poor's) May 5, 2008--Standard & Poor's Ratings Services raised its rating on the state of Montana's outstanding general obligation (GO) bonds to 'AA' from 'AA-' and assigned its 'AA' rating to Montana's \$3.1 million GO long-range building program bonds, series 2008D. The outlook is stable.

"The raised rating reflects the state's improved financial performance and reserve levels that, even when including a projected spend-down thereof, act as a necessary buffer against the state general fund's historic revenue volatility and one-time expenditure needs through fiscal 2009," said Standard & Poor's credit analyst Paul Dyson. An offsetting credit factor includes the state's cyclical economy, with dependence on agriculture, mining, and tourism.

The state has recorded four consecutive general fund surpluses during 2003-2007 totaling \$521 million. Fiscal 2007 ended with a strong general fund surplus of \$149 million or a healthy 8% of budget, bringing the state's unreserved fund balance to an all-time high of \$549 million or a very strong 34% of expenditures, compared with just \$43 million or 3% of expenditures back in 2003. The state exceeded its 2007 ending unreserved fund balance forecast of \$459 million handily by \$90 million, despite supplemental appropriations made for wildfires, health and human services, and corrections, among others, as these spending increases were more than offset by strong revenue growth. Cash balances rose to \$517 million in 2007, up from \$394 million in 2006 and just \$34 million in 2003. Overall, general fund revenues for fiscal 2008 were

originally budgeted to decline 4%, although with year-to-date figures up 6%. Growth in individual income tax and property taxes should be sufficient to outweigh softness in corporation license/income tax, but overall growth may be less than 6% given a one-time state tax credit in the fourth quarter.

Montana is the fourth-largest state in area in the U.S. and has a population of 947,621 as of 2007.

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